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AUDIT

# The Corporation of the City of Windsor Public Library Board

Audit Findings Report

For the year ending December 31, 2011

**KPMG LLP**, Chartered Accountants, Licensed Public  
Accountants

[kpmg.ca](http://kpmg.ca)

Dear Finance Committee members,

We have prepared this audit findings report to assist you with your review of the financial statements and the carrying out of your finance committee responsibilities. We are here to help. We encourage you to ask us for more information on any of the matters covered in this report—and beyond.

***Developments in the audit profession***

As part of our ongoing effort to keep you informed on issues critical to your responsibilities, we bring to your attention that the Public Company Accounting Oversight Board (PCAOB) issued two concept releases. The first release speaks to auditor independence, and requests input on ways auditor independence, objectivity, and professional skepticism could be enhanced. The second release discusses several alternatives for changing the auditor's reporting model that focus on increasing transparency and relevance to financial statement users, while not compromising audit quality.

KPMG is fully committed to the goal of enhancing auditor independence, objectivity, and professional skepticism. We will continue to be actively engaged with the PCAOB, Canadian Public Accountability Board, and other regulatory bodies to pursue actions that will improve audit quality and enhance market confidence in the independent audit.

***Audit quality***

The quality of an audit and the resulting financial statements are receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review "KPMG's Audit Quality Framework", summarized in the appendices of this report.

***Reaching out to audit / finance committees***

KPMG's Audit Committee Institute holds Audit Committee Roundtables across the country twice yearly. You are cordially invited to attend. For information and registration, please visit [www.kpmg.ca/auditcommittee/roundtables.html](http://www.kpmg.ca/auditcommittee/roundtables.html).

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you as you carry out your agenda, and we look forward to discussing our findings and answering your questions at the upcoming finance committee meeting.

Yours sincerely,

Tom Clark



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## Executive summary

### Overview

The purpose<sup>1</sup> of this Audit Findings Report is to assist you, as a member of the finance committee, in your review of the consolidated financial statements of the Corporation of the City of Windsor Public Library Board for the year ended December 31, 2011.

### Status

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures which include:

- receipt of legal confirmations – dated letters effective April 13, 2012.
- completing our discussions with the finance committee.
- receiving a signed letter of representation from management.
- obtaining evidence of the Board's approval of the financial statements.

Please refer to the Appendices for our draft audit report. We will update you on any significant matters arising from the completion of the audit, including completion of the above procedures. Our audit report will be dated upon completion of any remaining procedures.

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<sup>1</sup> This Audit Findings Report should not be used for any other purpose or by anyone other than the finance committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



## Significant audit, accounting and reporting matters

### Matters to discuss

Included in this report are matters we have highlighted for discussion at the upcoming finance committee meeting. We look forward to discussing these matters and our findings with you.

### Matters related to management's judgment and estimates

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

<b>Significant account estimates</b>
<ul style="list-style-type: none"> <li>Significant accounting estimates include the carrying value of tangible capital assets and employee future benefits.</li> </ul>
<b>KPMG comments</b>
<ul style="list-style-type: none"> <li>There have been no indicators of possible impairment of tangible capital assets and therefore, no valuation allowance is considered necessary.</li> <li>KPMG confirmed the employee future benefits liability directly with the Board's Actuary, tested the underlying assumptions for reasonableness and tied the amounts to the consolidated financial statements, including related disclosures.</li> <li>The current year actuarial report contains an adjustment relating to a plan amendment, by which Management has rescinded out-of-province medical benefits for the majority of the members of the plan. It is our understanding that the decision to amend the plan was made in late fiscal 2010. However, this amendment was not included in the December 31, 2010 actuarial report but rather was adjusted in the December 31, 2011 report. Had the plan amendment been reflected in the fiscal 2010 report, it would have resulted in an additional expense in fiscal 2011 relating to the net actuarial loss recorded. KPMG has recorded this as an unadjusted audit difference (discussed further below).</li> </ul>
<b>Misstatements</b>
<ul style="list-style-type: none"> <li>Overstatement of the liability relating to employee future benefits and related expense of approximately \$19,000 as at December 31, 2011.</li> </ul>
<b>Significant deficiencies / Material weaknesses</b>
<ul style="list-style-type: none"> <li>No significant deficiencies or material weaknesses noted.</li> </ul>

<b>Litigation</b>
<b>KPMG comments</b>
<b>Misstatements</b>
<b>Significant deficiencies / Material weaknesses</b>

<b>Litigation</b>
<b>KPMG comments</b>
<b>Misstatements</b>
<b>Significant deficiencies / Material weaknesses</b>



## Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

### Expense Report Policies and Procedures

- As part of our audit, KPMG is required to perform certain “unpredictable” procedures. As such, and in light of the fact that we had reported control deficiencies in this area in previous audits, KPMG performed testing over management expense reports to satisfy this requirement.
- KPMG reviewed both the corporate credit card policies and the travel, business and meal reimbursement policies to test both compliance with and internal controls over these processes.
- KPMG selected a sample of expense reports to test, based on professional judgment, including a Director, the Finance Manager, the Chief Executive Officer and the current Board Chair.
- As a result of identifying a significant number of non-compliance issues with the original sample, KPMG extended testing to include all fiscal 2011 and 2012 reports to date for those individuals originally sampled. In addition, KPMG added an administrative staff, another Director, the former Board Chair, the former Finance Committee Chair as well as the current Finance Committee Chair.

### KPMG comments

The following tables summarize what we consider to be the most significant violations and those that were identified in a number of expense reports tested. We acknowledge that, from time to time, isolated instances of violations of policies and procedures can and do occur, which, in and of themselves, are not indicators of significant deficiencies or material weaknesses in internal controls.

Note – for purposes of our discussion, we have presented our findings for the Corporate Credit Card Policies and the Business, Travel and Meals Policies, separately on the tables below (see pages 7 – 11).

### CORPORATE CREDIT CARD POLICIES

These policies were effective June 11, 2008 and were scheduled to be updated June 11, 2011, but, to our understanding, this has yet to occur.

### TRAVEL, BUSINESS AND EXPENSE POLICIES

These policies were updated September 22, 2011 (agreed to Board minutes).

CORPORATE CREDIT CARD POLICY	FINDINGS	IMPACT
<p><i>The Library credit card is user-specific; no one shall attempt to purchase an item using a card issued to another person. Delegation of authority is not permitted in making transactions.</i></p>	<ul style="list-style-type: none"> <li>• KPMG noted the corporate credit cards, in more than one instance, are being used for someone other than the card holder.</li> </ul>	<ul style="list-style-type: none"> <li>• If not user specific, difficult to determine if expense should be approved for payment.</li> </ul>
<p><i>The Library credit card may NOT be used for the following transactions:</i></p> <p><i>a. Non business purchases (personal items)</i></p>	<ul style="list-style-type: none"> <li>• During our testing of expense reports from the Board Chair, KPMG noted a significant amount of transactions for personal items – it appears that the Library is being reimbursed, albeit not always in a timely manner.</li> <li>• There are a number of transactions for which detailed receipts, or any receipts, are not provided making it difficult to determine if personal or business in nature.</li> <li>• Subsequent to our discussions with the CEO and Board Chair, the Chair voluntarily turned in his credit card for cancellation and reimbursed all outstanding personal expenses.</li> </ul>	<ul style="list-style-type: none"> <li>• Some personal items could, in error, be charged as Library expenses.</li> <li>• Library bears the costs of financing personal items if not reimbursed in a timely manner.</li> </ul>
<p><i>Obtain from the supplier a credit card slip and a receipt for all items purchased, delivered or picked up. All receipts must have the detailed information as to location, description, quantity and pricing. Such receipts must be attached to credit card statement approved for payment.</i></p>	<ul style="list-style-type: none"> <li>• There were a significant number of expenses for which detailed receipts were not attached (i.e. credit card slip only), detailed information supporting the transaction was not provided or receipts were missing all together.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased likelihood that personal transactions are recorded as Library expenses in error.</li> <li>• Expenses may be coded to the incorrect account.</li> <li>• HST paid may not be picked up as input tax credits.</li> </ul>



CORPORATE CREDIT CARD POLICY (continued)	FINDINGS	IMPACT
<i>Identify the account number that will be used to record each itemized expense.</i>	<ul style="list-style-type: none"> <li>• A number of expense reports did not identify the account numbers to be used.</li> <li>• As many transactions lacked appropriate detailed support, the account used could not be confirmed as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Expenses may be coded to the incorrect account.</li> <li>• HST paid may not be picked up as input tax credits.</li> </ul>
<i>Sign and date credit card statement and attached receipts. Submit statement for approval to the next higher authority.</i>	<ul style="list-style-type: none"> <li>• A number of expense reports were not signed or dated.</li> <li>• A number of expense reports did not appear to have appropriate approval at the "next higher authority".</li> </ul>	<ul style="list-style-type: none"> <li>• If not signed and dated, cannot determine if being completed in a timely manner.</li> <li>• If not approved by a higher level, inappropriate expenses may be allowed.</li> </ul>
<i>(Cardholders shall) comply with and having a thorough working knowledge of all applicable policies and procedures and guidelines.</i>	<ul style="list-style-type: none"> <li>• Given the number of issues of non-compliance, it would appear that not all have a requisite knowledge of the applicable policies and procedures and guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>• As identified above.</li> </ul>

TRAVEL, BUSINESS AND MEAL EXPENSE POLICY	FINDINGS	IMPACT
<p><i>The CEO, Board Members, Directors and Managers are responsible to:</i></p> <p>a.) <i>Pre-approve travel, business and mileage requests for WPL employees and Board Members.</i></p> <p>b.) <i>Ensure systems and procedures are established to ensure that all requests for reimbursement are in compliance with this policy and its related procedures.</i></p>	<ul style="list-style-type: none"> <li>• A number of expense reports included out-of-town travel, accommodations, meal and conference expenses for which there was no evidence of pre-approval.</li> <li>• Given the number of issues of non-compliance identified, it would appear that the systems and procedures are not working effectively to ensure compliance.</li> </ul>	<ul style="list-style-type: none"> <li>• Travel, business and mileage expenses are being approved "after the fact".</li> <li>• Methods of travel and accommodations may not be the most efficient use of Library resources.</li> </ul>
<p><i>Complete and sign all required documents pertaining to travel, business and mileage expenses and attach all supporting invoices / receipts.</i></p>	<ul style="list-style-type: none"> <li>• As identified above, there were a number of expense reports that did not have sufficient support, including related invoices, receipts or other documentation.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased likelihood that personal transactions are recorded as Library expenses in error.</li> <li>• Expenses may be coded to the incorrect account.</li> <li>• HST paid may not be picked up as input tax credits.</li> </ul>
<p><i>Submit travel and business reimbursement forms within 30 days from the date in which they completed the travel or the date in which the expenditure was incurred.</i></p>	<ul style="list-style-type: none"> <li>• A number of expense reports were not submitted for approval (i.e. with receipts) within 30 days.</li> <li>• A number of expense reports were not dated and therefore compliance with this policy could not be determined.</li> </ul>	<ul style="list-style-type: none"> <li>• Incorrect coding of expenses may occur.</li> <li>• If not submitted in a timely manner, invoices / receipts may be difficult to locate.</li> </ul>

TRAVEL, BUSINESS AND MEAL EXPENSE POLICY (continued)	FINDINGS	IMPACT
<i>Travel, business and mileage expenditures are to be based on sound judgment and with proper regard to economy.</i>	<ul style="list-style-type: none"> <li>• Travel and conference expense forms were not included in a number of expense reports, providing alternative travel / accommodation arrangements for pre-approval.</li> <li>• Lack of receipts makes it difficult to determine if "sound judgment with proper regard to economy" is being considered.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher travel, business and mileage expenses may be incurred.</li> </ul>
<i>Reimbursed travel expenses are subject to examination by the Finance Office and/or external auditors and should be completed with care and accuracy and supported by the appropriate invoices and/or receipts.</i>	<ul style="list-style-type: none"> <li>• As identified above, there were a number of expense reports that did not have sufficient support, including related invoices, receipts or other documentation, for either review by the Finance Office or the external auditor.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to determine if certain policies or procedures are being adhered to.</li> </ul>
<i>Travel and conference forms to be used to obtain approval to incur a travel or business expense.</i>	<ul style="list-style-type: none"> <li>• Travel and conference expense forms were not included in a number of expense reports, providing alternative travel / accommodation arrangements for pre-approval.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher travel, business and mileage expenses may be incurred.</li> </ul>
<i>Employees will be reimbursed for meals, related to travel and conference, in accordance with the amounts specified in the Meal Allowance Guidelines.</i>	<ul style="list-style-type: none"> <li>• Certain expense reports included reimbursement for meals above what the meal allowance guidelines provide for.</li> <li>• Lack of receipts / detailed documentation makes it difficult to determine if in compliance with this policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher meal expenses are incurred than the internal policies allow.</li> </ul>



TRAVEL, BUSINESS AND MEAL EXPENSE POLICY (continued)	FINDINGS	IMPACT
<i>Alcoholic beverages will not be reimbursed.</i>	<ul style="list-style-type: none"> <li>• A number of expense reports appear to have alcoholic beverages included.</li> <li>• Lack of receipts / detailed documentation makes it difficult to determine if in compliance with this policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher meal expenses are incurred than the internal policies allow.</li> </ul>
<p><i>Meetings including Windsor Public Library staff and third parties will be reimbursed under the following circumstances:</i></p> <ul style="list-style-type: none"> <li><i>i) Meal is determined to be necessary for business purposes in the best interest of the Windsor Public Library AND</i></li> <li><i>ii) A stated business purpose is provided AND</i></li> <li><i>iii) All attendees and the business purpose are detailed on the Meal and Miscellaneous Expense Form or attachment. Itemized receipts must be submitted with the reimbursement form. Credit card receipts, providing the vendor and total expense only, will not be accepted.</i></li> </ul>	<ul style="list-style-type: none"> <li>• A number of "business meals" did not include documentation of the business purpose and / or the attendees, whether on a "Meal and Miscellaneous Expense Form" or other forms of documentation.</li> <li>• A number of "business meals" did not include the itemized receipts and included the credit card slip only.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher meal expenses may be incurred.</li> <li>• Personal meals may be included in error.</li> </ul>

### **Misstatements**

Given the quantum of the total expense reports, our findings do not indicate a material misstatement. However, it is not possible to quantify the impact of adjustments, if any, that may be required such as:

- Recovery of personal expenditures inappropriately recorded as expenses of the Library
- Recovery of HST through input tax credits recorded as expenses of the Library
- Reclassification of expenses

### **Significant deficiencies / Material weaknesses**

Although it should be noted that many of the persons selected for testing were in compliance with both policies, KPMG identified a significant amount of non-compliance issues, which, given their nature and their extent, are, at a minimum, represent significant deficiencies in internal control over financial reporting.

At a minimum, KPMG recommends the following:

- Every card holder should be given a copy of the corporate credit card policies and travel, business and meals expense policies, have them reviewed and signed by the card holder that they are aware of the policies and commit to complying with them.
- Use of corporate credit cards for personal use should stop immediately.
- The policies should be more specific as to what is considered a sufficient receipt and form of documentation so that expenses can be recorded in the appropriate account.
- Expense forms should have clear lines for signoff / dating and approval / and accounts.
- Travel forms should be submitted for pre-approval for all out-of-town travel, detailing the business reason, the form of travel, the accommodations with meal allowances.
- Business meal forms should be drafted, indicating purpose / attendees / signoff / and dating and approval.

### **Management comments**

The CEO has reviewed the Audit Findings report and while he believes some of the policy compliance is not pervasive, there is a commitment to adherence to the Library Board's policies. However he will be recommending a number of changes, i.e. Business and Travel Policy, Purchasing Policy, Signing Officers, and Corporate Credit Card Policy to find a good balance of controls with a perspective that reflects the operational goals and philosophy of WPL. These will be brought forward as soon as possible to the Finance Committee for review and consideration. They will then go for review and hopefully eventual adoption by the WPL Board.

Overall the library is in a sound financial position, it generally is well-run, but there is always room for improvement in our processes

<b>Compensation Amendments</b>
<b>KPMG comments</b>
<b>Misstatements</b>
<b>Significant deficiencies / Material weaknesses</b>

## Matters previously discussed

We have highlighted below certain matters that we have previously discussed with you:

<b>Joint Job Evaluations</b>
<ul style="list-style-type: none"> <li>In fiscal 2010, the Board completed its Joint Job Evaluation (JJE) review process, and the new rates of pay were effective on January 1, 2011.</li> <li>The purpose of the JJE committee was to review the various job descriptions and to determine the number of points to be allocated to each position based on a preset valuation model of various qualifications and responsibilities. The number of points determined by the committee then defined which pay band that the job description would belong to.</li> </ul>
<b>KPMG comments</b>
<ul style="list-style-type: none"> <li>As no accrual was set up as at December 31, 2010 for liabilities relating to retroactive pay, all adjustments were recorded in the statement of operations in the current year.</li> <li>KPMG tested controls and performed test of details over payroll and the related pay rates, and did not identify any issues relating to the implementation of the new rates.</li> </ul>
<b>Misstatements</b>
<ul style="list-style-type: none"> <li>No misstatements were identified.</li> </ul>
<b>Significant deficiencies / Material weaknesses</b>
<ul style="list-style-type: none"> <li>No significant deficiencies or material weaknesses noted.</li> </ul>





## Misstatements

### Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements, including disclosures
- corrected misstatements, including disclosures.

### Uncorrected misstatements

Professional standards require that we request of management and the finance committee that all uncorrected misstatements be corrected. We have made this request of management. However, management has decided not to correct certain misstatements and represented to us that the uncorrected misstatements—individually and in the aggregate—are, in their judgement, not material to the financial statements based on both qualitative and quantitative considerations.

We concur with management's representation. Accordingly, the uncorrected misstatements have no effect on our audit report. However, we would like to take the opportunity to discuss the possible implications of not correcting these misstatements in relation to future financial statements.

Refer to Management's representation and the Summary of Uncorrected Audit Misstatements in the Appendices for all uncorrected audit misstatements.

### Corrected misstatements

No corrected misstatements were required.



## Control deficiencies

### Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

### Identification

We identified certain control deficiencies that we determined to be significant deficiencies in ICFR. We have previously discussed these control deficiencies in the section, "Significant audit, accounting and reporting matters".

### Management's responses

Management's responses have not been subjected to the audit procedures applied in the audit, and accordingly, we express no opinion on them.

### Definitions

Terminology	Definition
<b>Deficiency in internal control</b>	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when: (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Terminology	Definition
<b>Significant deficiency in internal control</b>	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is less severe than a material weakness, yet is of sufficient importance to merit the attention of those charged with governance.
<b>Material weakness in internal control</b>	A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's annual financial statements will not be prevented or detected and corrected on a timely basis.





## Appendices

**Draft audit report**

**Independence letter**

**Management representation letter**

**KPMG's Audit Quality Framework**

# Draft audit report

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE CORPORATION OF THE CITY OF WINDSOR PUBLIC LIBRARY BOARD, MEMBERS OF COUNCIL, INHABITANTS AND RATEPAYERS OF THE CORPORATION OF THE CITY OF WINDSOR

We have audited the accompanying consolidated financial statements of The Corporation of the City of Windsor Public Library Board which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations and accumulated surplus, change in net debt, and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Windsor Public Library Board as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Date of approval  
Windsor, Canada

# Independence letter

**See attached independence letter**





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## **PRIVATE & CONFIDENTIAL**

Board of Directors  
The Corporation of the City of Windsor Public Library Board  
850 Ouellette Avenue  
Windsor, Ontario N9A 4M9

April 17, 2012

Dear Board of Directors:

We have been engaged to express an opinion on the consolidated financial statements of The Corporation of the City of Windsor Public Library Board ("the Entity") as at and for the period ended December 31, 2011.

Professional standards specify that we communicate to you in writing, at least annually, all relationships between the Entity (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since the date of our last letter.

## **PROVISION OF SERVICES**

The following summarizes the professional services rendered by us to the Entity (and its related entities) for the period ended December 31, 2011.



Description of Service
<b>Audit</b> <ul style="list-style-type: none"><li>• Audit of the Entity's financial statements</li><li>• Audit of Adult Literacy Program activity</li></ul>
<b>All other</b> <ul style="list-style-type: none"><li>• Preparation of accounting records and financial statements</li></ul>

#### **OTHER RELATIONSHIPS**

We are not aware of any relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence during the period from January 01, 2011 to April 19, 2012.

#### **CONFIRMATION OF INDEPENDENCE**

Professional standards require that we confirm our independence to you in the context of the relevant ethical requirements regarding independence.

Accordingly, we hereby confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 17, 2012.

#### **OTHER MATTERS**

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party for any other purpose.

Yours very truly,

Chartered Accountants, Licensed Public Accountants

## Management representation letter

**See attached management representation letter**



**DRAFT**

KPMG LLP  
Chartered Accountants  
618 Greenwood Centre  
3200 Deziel Drive  
Windsor, Ontario N8W 5K8  
Canada

April 17, 2012

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Windsor Public Library Board ("the Entity") as at and for the period ended December 31, 2011.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 25, 2011, for:
  - a) the preparation and fair presentation of the financial statements.
  - b) providing you with all relevant information and access.
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

**FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
- a) the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**COMMITMENTS & CONTINGENCIES:**

- 4) There are no:
- a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation.
  - b) other environmental matters that may have an impact on the financial statements.

**SUBSEQUENT EVENTS:**

- 5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

- 6) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

- 7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 8) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**MISSTATEMENTS:**

- 9) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Yours very truly,

THE CORPORATION OF THE CITY OF WINDSOR PUBLIC LIBRARY BOARD

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By: Mr. Barry Holmes, CEO

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By: Mrs. Laurie Turcotte, Finance Manager



## **Attachment I – Definitions**

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian accounting standards for the public sector (PSAB) *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian accounting standards for the public sector (PSAB) a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

## Attachment II

### Summary of uncorrected audit misstatement

Method used to evaluate audit differences: Income statement (Roll over)

Impact on financial statement captions - DR(CR)																	
#	Account #	Account Name	Description / Identified During	Error Type	Amount	Income Effect DR (CR)			Balance Sheet Effect					Cash Flow Effect			Statement of Comprehensive Income - Debit (Credit)
						Income effect of correcting the balance sheet in prior period	Income effect according to (Iron Curtain Sheet) method	Income effect (Roll over method)	Equity at period end	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Operating Activities	Investing Activities	Financing Activities	
1	68000-AD-ALLO	EMPLOYEE FUTURE BENEFIT OBLIGATIONS	Adjust opening pension obligation.		\$ 19,000	\$ -	\$ 19,000	\$ 19,000	\$ -					\$ -	\$ -		\$ -
	27500	Employee Future Benefit Obligations			\$ (19,000)			\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,000)	\$ -	\$ -		\$ -
Total uncorrected misstatements (before tax)																	
Tax effect of uncorrected misstatements or tax audit misstatements																	
Total uncorrected misstatements (after tax)																	
Final financial statement amounts																	
Percentage of uncorrected misstatements after tax financial statement amounts																	
						- %		3.11 %		0.00 %	0.00 %	0.00 %	1.15 %	0.00 %	0.00 %		0.00 %

## Attachment II

### Summary of uncorrected audit misstatements in presentation and disclosures

	Description of Audit Misstatement	Resolution	Type of Misstatement
1	Budgeted figures not shown in the financial statements.	Uncorrected	Factual



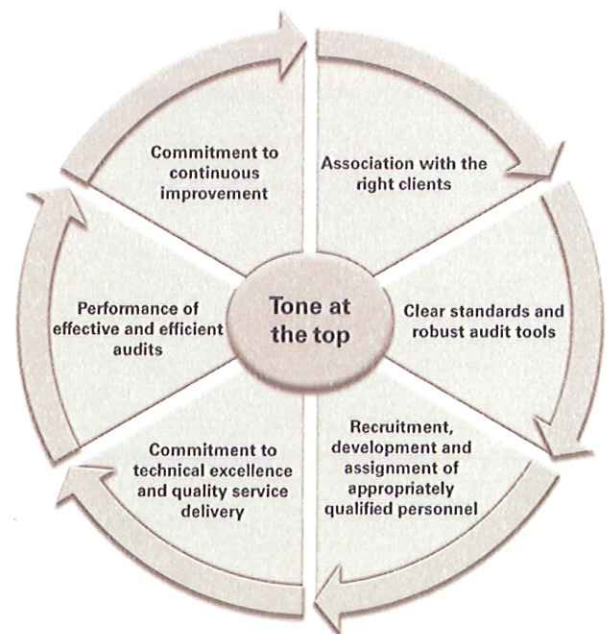
# KPMG's Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.



## The seven key drivers of audit quality

Driver	What it does	What it means to you
<b>Tone at the top</b>	<b>Audit quality is part of our culture and our values and therefore non-negotiable</b>  Allows the right behaviours to permeate across our entire organization and each of our engagements	<b>Assures you that:</b> <ul style="list-style-type: none"> <li>Our culture supports our promise to you of excellent client service and a high quality audit—consistently</li> <li>You're receiving an independent, transparent, audit opinion</li> <li>You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements.</li> </ul> <b>Provides you with:</b> <ul style="list-style-type: none"> <li>An engagement team handpicked for your business needs – a team with relevant professional and industry experience</li> <li>An audit engagement team whose qualifications evolve</li> </ul>
<b>Association with the right clients</b>	<b>Ethics above all</b>  Eliminates any potential independence and conflict-of-interest issues	
<b>Clear standards and robust audit tools</b>	<b>A solid rule book</b>  Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality	
<b>Recruitment, development and assignment of appropriately qualified personnel</b>	<b>People who add value</b>  Helps us attract and retain the best people and reinforces the importance of developing their talents  Assigns Partners' portfolios based on	

Driver	What it does	What it means to you
	their specific skill sets	as your business grows and changes
<b>Commitment to technical excellence and quality service delivery</b>	<p><b>The right tools for the right job</b></p> <p>Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</p>	<ul style="list-style-type: none"> <li>• An audit opinion that continues to meet your needs as a participant in the capital markets</li> </ul> <p><b>Assists you with:</b></p> <ul style="list-style-type: none"> <li>• Assessing the effectiveness and efficiency of the audit</li> </ul>
<b>Performance of effective and efficient audits</b>	<p><b>We understand that how an audit is conducted is as important as the final result.</b></p> <p>A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</p>	<ul style="list-style-type: none"> <li>• Performing your governance role with confidence.</li> </ul>
<b>Commitment to continuous improvement</b>	<p><b>Comprehensive and effective monitoring</b></p> <p>We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</p>	



## **The regulatory landscape is changing**

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

## **Our commitment to quality**

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of our clients and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

**Audit quality is fundamental to the way we work – it is non-negotiable.**



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